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Office of the Legislative Auditor

State of Montana

Report to the Legislature

October 1990

Financial Audit

Fiscal Year Ended June 30, 1990

Guaranteed Student Loan Program

Commissioner of Higher Education

We issued an unqualified opinion on the financial statements of the program and our report contains no recommendations.

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Helena, Montana 59620



FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

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Senator Greg Jergeson, Vice Chairman
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Representative Mike Kadas
Representative Robert Pavlovich
Representative Bruce Simon

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

October 1990

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

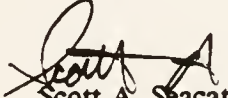
This is our report on the audit of the Commissioner of Higher Education's Guaranteed Student Loan Program (GSL) for the fiscal year ended June 30, 1990.


The Montana Guaranteed Student Loan Program, established by the Montana Legislature in 1981, allows eligible students to receive guaranteed loans from lender institutions. The federal government guarantees the loans made by lending institutions and makes administrative cost reimbursements to GSL. The federal government also advanced start-up money when the program began.

The Guaranteed Student Loan Program initially contracted with United Student Aid funds to process and service loans. In the fall of 1987, the Board of Regents approved a plan to bring much of the loan processing and servicing to Montana. GSL began the phase-in process in April 1988. As of February 1990, phase-in has been accomplished. GSL continues to contract with United Student Aid funds for computer support services.

We thank the Commissioner of Higher Education and his staff for their cooperation and assistance during the audit.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

Financial Audit

For the Fiscal Year Ended June 30, 1990

Guaranteed Student Loan Program Commissioner of Higher Education

Members of the audit staff involved in this audit were Donna Aschenbrener and Lorry Parriman.

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Independent Auditor's Report & Agency Financial Statements



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Balance Sheet of the Guaranteed Student Loan Program - Special Revenue Fund of the state of Montana as of June 30, 1990, and the related Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the fiscal year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guaranteed Student Loan Program of the state of Montana as of June 30, 1990, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 12, 1990

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM
SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 1990

ASSETS

Cash in Treasury	\$ 129,898
Prepaid Expenses	3,442
Expense Advances to Employees	575
Accounts Receivable	17,879
Due From Federal Government (Note 4)	1,131,857
Investments (Note 3)	3,302,800

TOTAL ASSETS	<u>\$4,586,451</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$ 29,133
Due to Federal Government (Note 8)	380,090
Deferred Revenue (Note 10)	3,423,001

TOTAL Liabilities	\$3,832,224

Fund Balances:

Restricted (Note 5)	\$ 82,505
Unrestricted	671,722

TOTAL Fund Balance	\$ 754,227

TOTAL LIABILITIES AND FUND BALANCES	<u>\$4,586,451</u>
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The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
 GUARANTEED STUDENT LOAN PROGRAM
 SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 1990

	Budget	Actual	Variance Favorable (Unfavorable)
	-----	-----	-----
REVENUE:			
Guarantee Fee Income	\$ 840,696	\$ 833,157	\$ (7,539)
Administrative Cost Allow. (Note 6)	395,917	490,391	94,474
Investment Earnings	273,831	206,062	(67,769)
Collection Cost Retained	50,000	62,540	12,540
Recoveries of Defaults	25,000	15,095	(9,905)
	-----	-----	-----
TOTAL REVENUES	\$1,585,444	\$1,607,245	\$ 21,801
 EXPENDITURES:			
Current:			
Administrative Costs	\$1,635,272	\$1,323,780	\$ 311,492
Capital Outlay:			
Equipment and Intangible Assets	87,087	74,557	12,530
	-----	-----	-----
TOTAL EXPENDITURES	\$1,722,359	\$1,398,337	\$ 324,022
 Excess Revenues Over/ (Under) Expenditures	\$ (136,915)	\$ 208,908	\$ 345,823
Loss from Litigation (Note 7)	0	(968,058)	(968,058)
Prior Year Adjustment (Note 9)	0	(5,135)	(5,135)
Fund Balance - 07/01/89	1,518,512	1,518,512	0
	-----	-----	-----
Fund Balance - 06/30/90	<u>\$1,381,597</u>	<u>\$ 754,227</u>	<u>\$(627,370)</u>

The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 1990

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The State of Montana Guaranteed Student Loan (GSL) Program is located in the Office of the Commissioner of Higher Education. As a Special Revenue Fund, it accounts for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. The program was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions within the state of Montana.

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual.

Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and received before the normal time of receipt or if received for a particular activity and the expense for that activity has not been incurred prior to fiscal year-end.

2. EMPLOYEES' RETIREMENT SYSTEM

The Guaranteed Student Loan Program employees are covered by the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), or the University System Optional Retirement Plan, Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. The employee contributes 6.15 percent of his gross wages. Through the fiscal year ending June 30, 1990, GSL contributed \$17,654 to PERS in employer contributions.

Under TRS, the state contributes 7.459 percent of an employee's gross wages to TRS. The employee contributes 7.044 percent of his gross wages. Through the fiscal year ending June 30, 1990, GSL contributed \$8,127 to TRS in employer contributions.

Under TIAA-CREF, the state contributed 2.956 percent to TIAA and 4.503 percent to TRS. The employee contributed 7.044 percent of his gross wages to TIAA. Through the fiscal year ending June 30, 1990, GSL contributed \$780 to TIAA.

The state's policy is to fund accrued pension costs although unfunded liabilities exist. Based on their most recent actuarial valuation reports, both the PERS and the TRS were actuarially sound.

3. INVESTMENTS

Investments are units purchased in the state of Montana's Short Term Investment Pool (STIP) and are reflected at cost which equals market. At June 30, 1990, GSL owned 33,028 units valued at \$100 per unit for a total of \$3,302,800. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements. At June 30, 1990, most securities (approximately 95 percent) were held by the state or its agent in the state's name. The remaining portion (approximately 5 percent) were loaned under a security lending agreement with the state's agent.

4. DUE FROM FEDERAL GOVERNMENT

The Guaranteed Student Loan Program pays individual lending institutions for any loans that have been defaulted or are unpaid due to the death of the borrower. The GSL Program then seeks reimbursement from the Department of Education (D.E.) for payments made to lenders for the death and default claims. The extent of this outstanding activity is shown below:

Claims due from D.E.	\$1,070,571
Plus Administrative Cost Allowance	
4th quarter (Note 6)	61,286

Total Due From Federal Government	<u>\$1,131,857</u>

5. RESTRICTED FUND BALANCE

This fund balance accounts for all interest earnings on the advance discussed in Note 7 as program regulations require these interest earnings be maintained for claim payments. Through June 30, 1990, GSL has paid \$189,658 in claims.

6. ADMINISTRATIVE COST ALLOWANCE

The Administrative Cost Allowance revenue is \$490,391 for the fiscal year ending June 30, 1990. This allowance is dependent upon the federal appropriation. It represents 1 percent of the loans guaranteed for the year.

7. LITIGATION/SUBSEQUENT EVENT

The program received \$734,173 during the first six years of its operation from the United States Department of Education to assist the program in its start-up stages. These funds were restricted in their use and could be recalled by the federal government if the reserve maintained by the program exceeded certain requirements. At the end of February 1988, GSL returned \$493,830 of the original advance to the U.S. Department of Education and the final \$240,343 was returned in November 1988. The Department of Education also notified GSL that the program must reduce its reserves by an additional \$968,058. The Department of Education withheld the September 1988 through November 1988 payments, in order to satisfy its spenddown requirement. GSL joined four other states in filing suit in federal district court in Denver to have this action declared unconstitutional.

On August 22, 1990, the Montana Guaranteed Student Loan Program was notified that its suit filed in U.S. Federal Court, Colorado District, was unsuccessful. Because of this notification, GSL recognized the spenddown loss for FY90.

8. DUE TO FEDERAL GOVERNMENT

GSL seeks collection of loans that have been defaulted. Upon collection of all or a portion of a defaulted loan, GSL deducts an amount, not to exceed 30 percent of the collected amount, as a collection fee. Since the GSL Program previously received payment for the defaulted loan from the Department of Education, the amount of the new loan recovery is owed back to the Department of Education. The extent of this outstanding activity is shown below:

Claims due to D.E.	\$364,769
Reinsurance 4th quarter	15,321

Total Due to Federal Government	\$380,090
	=====

9. PRIOR YEAR ADJUSTMENTS

The prior year adjustment of \$5,135 consists of:

Adjustment-4th quarter FY89 Reinsurance expense	\$ (289)
Adjustment-prior year expenditure, received July	158
Prior year share litigation expense	(5,004)

	<u>\$ (5,135)</u>

10. DEFERRED REVENUE

Guarantee fees (3 percent of loans disbursed) are deferred and recognized over an eight year period which approximates the average life of student loans outstanding.

Agency Response



MONTANA GUARANTEED STUDENT LOAN PROGRAM

35 South Last Chance Gulch • Helena, Montana 59620-3104

(406) 444-6594 FAX (406) 444-7729

Customer Assistance (800) 537-7508

October 18, 1990

OCT 19 1990

Scott A. Seacat
Legislative Auditor
Capitol Station
Helena, MT 59620

Dear Scott:

This letter confirms completion of the Guaranteed Student Loan Program audit performed by your staff. It is my understanding there were no recommendations.

I want to take this opportunity to thank you and your staff for the fine spirit of cooperation. I find it gratifying that Lorri Parriman has been involved with the student loan program audit for a number of years. This continuity is certainly an asset to both our organizations in time and training. The staff in this office are very appreciative of Donna Aschenbrener's efforts to understand all the facets of the student loan operation, especially in light of the expansion of services we offered during FY 90 compared to previous years.

Please be assured that the student loan program staff will continue to evaluate and improve this service so the confidence of lenders and educational institutions remain intact. Their confidence is of utmost importance if students are to maintain access to the private capital of the lending community.

Sincerely,

Bill Lannan, Director
Guaranteed Student Loan Program

